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Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 XMB-02 FRB-03 SSO-00
NSCE-00 INRE-00 USIE-00 /098 W
----------102987 291958Z /73
O 291913Z AUG 77
FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC IMMEDIATE 6267

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DEPT FOR ARA/AND/CH STEVEN

E.O. 11652: N/A
TAGS: EFIN CI
SUBJECT: FIRST OF CHICAGO AND ARCO

REF: STEVEN/BOYATT AND STEVEN/KENNEDY TELCONS

1. FIRST NATIONAL BANK OF CHICAGO. ACCORDING TO ENRIQUE TASSARA, THE CENTRAL BANK'S MANAGER FOR EXTERNAL FINANCING, THE ONLY DISTINCTIVE ROLE IN CHILEAN FINANCE PLAYED BY FIRST OF CHICAGO IS THROUGH THE MANAGERSHIP BY ITS LONDON SUBSIDIARY OF AN INTERNATIONAL CONSORTIUM OF BANKS. THE CONSORTIUM AS OF JUNE 9, 1977 EXTENDED A $75 MILLION LINE OF CREDIT TO THE CENTRAL BANK FOR THE PURPOSE OF FINANCING THE IMPORT INTO CHILE OF CAPITAL GOODS AND SPARE PARTS. CREDIT IS EXTENDED FOR FIVE YEARS FOR TRANSACTIONS EXCEEDING $100,000 IN VALUE WITH FOUR YEARS FOR THOSE OF LESSER MAGNITUDE. NO DOWNPAYMENT. REPAYMENT IN EQUAL SIX-MONTH INSTALLMENTS WITH FIRST PAYMENT DUE JUNE 1979. INTEREST RATES ARE VARIABLE.

2. THIS ARRANGEMENT, SAYS TASSARA, REPLACED THE PROJECTED $50
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MILLION CREDIT BY FIRST OF CHICAGO (PANAMA) ORIGINALLY CONTEMPLATED (SEE SANTIAGO 3683). ADDITIONALLY TASSARA NOTES, FIRST OF CHICAGO PARTICIPATES IN OTHER SMALLER CONSORTIA INCLUDING LOANS TO CAP (STEEL COMPANY) AND SANTIAGO METRO BUT NOT AS MANAGER. EXACT AMOUNTS OF PARTICIPATION AND LIABILITY BY INDIVIDUAL MEMBER BANKS NOT KNOWN HERE.

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3. COMMENT: FIRST OF CHICAGO IS ONLY ONE OF GROWING NUMBER OF INTERNATIONAL BANKS INTERESTED IN LENDING IN CHILE. MORGAN GUARANTY AND BANKERS TRUST, AMONG OTHERS, HAVE EXERCISED MORE OF A LEADERSHIP ROLE. BANKS SEEM TO EXCHANGE INFORMATION AMONG EACH OTHER READILY AND REACH DECISIONS AS A GROUP.

4. ARCO. AT THE PRESENT TIME ATLANTIC-RICHFIELD (ARCO) HAS NO DIRECT, PRIVATE INVESTMENT IN CHILE. FUTURE PROSPECTS, HOWEVER, ARE VERY BRIGHT INDEED AND COULD AMOUNT TO AS MUCH AS TWO BILLION DOLLARS OVER THE NEXT 20-30 YEARS. GOC-ARCO ARE IN THE PROCESS OF NEGOTIATING A MAJOR PETROLEUM AGREEMENT; SIGNATURE IS EXPECTED WITHIN THE NEXT SIX WEEKS. THIS CONTRACT PROVIDES FIRST FOR ARCO EXPLORATION AND SECONDLY, IT ESTABLISHES THE GROUND RULES FOR FUTURE EXPLOITATION OF OFF-SHORE DISCOVERIES IN SOUTHERN CHILE. PROBABILITY OF SIGNIFICANT DISCOVERIES IS ASSUMED TO BE VERY HIGH. ARCO'S INVESTMENT IN PETROLEUM OPERATIONS COULD RUN TO AS MUCH AS 250 MILLION OR MORE. ARCO HAS ALSO EXPRESSED AN INTEREST IN-FORMALLY IN THE EXLOITATION AND LIQUIFICATION OF NATURAL GAS DEPOSITS.

5. FURTHERMORE, WITH ITS ACQUISITION OF ANACONDA, ARCO ACQUIRED CONSIDERABLE EXPERIENCE NOT ONLY IN COPPER MINING BUT ALSO OF CHILE. ARCO CHAIRMAN ROBERT ANDERSON, WHO IS UNABASHED ADMIRER OF CHILEAN ECONOMIC RECOVERY PROGRAM AND CONSERVATIVE ORIENTATION OF PRESENT GOVERNMENT, HAS SAID THAT ULTIMATE ARCO TARGET WILL BE EL ABRA. ONE OF THE WORLD'S LARGEST KNOWN COPPER OREBODIES,
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EL ABRA WOULD REQUIRE INVESTMENT RUNNING UP TO $1.5 BILLION.

6. FROM POINT OF VIEW OF STEVEN'S INQUIRY, HOLDING IN FIRST OF CHICAGO'S AND IN ARCO PRESENT COMPLETELY DIFFERENT PROBLEMS. THERE IS VIRTUALLY NOTHING THAT THIS EMBASSY COULD DO WHICH WOULD INFLUENCE CORPORATE DECISIONS OR PROFITABILITY OF FIRST OF CHICAGO. ITS DECISIONS MADE ELSEWHERE ARE BASICALLY INFLUENCED BY EX-TENT OF ITS EXPOSURE HERE AND ELSEWHERE OVERSEAS, AND JUDGMENTS OF ITS BANKING PEER GROUP. MOREOVER, EXTENT OF ITS EXPOSURE WITHIN LARGE BANKING CONSORTIA IS LIMITED IN TIME AND AMOUNT. BY CONTRAST, POTENTIAL ARCO EXPOSURE WOULD BE ENORMOUS IN AMOUNT AND EXTEND OVER 30 YEARS. EMBASSY CRYSTAL BALL AS TO RISK FACTOR MIGHT CARRY SOME, IF OBVIOUSLY LIMITED, WEIGHT. ITS INTERVENTION IN EXPECTED LENGTHY NEGOTIATING PROCESS, IF REQUESTED BY ARCO, MIGHT TIP SCALES ON SOME IMPORTANT ISSUES.
BOYATT

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Disposition Approved on Date:
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